

## Message Text

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ACTION ARA-10

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E.O. 11652: N/A  
TAGS: EGEN, EFIN AR  
SUBJ: MINISTER OF ECONOMY ADDRESSES NATION

1. SUMMARY: IN WHAT HAS BECOME ALMOST A MONTHLY EVENT, MINISTER OF ECONOMY MARTINEZ DE HOZ BROADCAST A NINETY-MINUTE SPEECH TO THE NATION APRIL 12 TO REVIEW HIS "PRAGMATIC-GRADUALIST" ECONOMIC PROGRAM. HE EMPHASIZED THE STRONG SUPPORT HIS PROGRAM HAS RECEIVED FROM THE MILITARY GOVERNMENT AND ASSURED THE PUBLIC THAT THE MAIN GUIDELINES OF THE PROGRAM WOULD BE MAINTAINED. THE MINISTER IDENTIFIED THE MAIN OBJECTIVES OF HIS PROGRAM AS THE REDUCTION OF THE RATE OF INFLATION AND THE GRADUAL RECOVERY OF THE ECONOMY. AMONG THE MEASURES TO REDUCE INFLATION, HE STRESSED THOSE WHICH WOULD DECREASE THE BUDGET DEFICIT. ECONOMIC RECOVERY COULD BE PROMOTED PRIMARILY THROUGH PUBLIC AND PRIVATE INVESTMENT.

2. THE MINISTER IDENTIFIED THE BUDGETARY DEFICIT AS THE PRINCIPAL FACTOR (BUT NOT THE ONLY ONE) FEEDING INFLATION AND REAFFIRMED THE GOA'S COMMITMENT TO REDUCE THE FISCAL GAP, WHICH WAS 13.5 PERCENT OF UNCLASSIFIED

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GDP IN THE FIRST QUARTER OF 1976, TO A PROJECTED 3 PERCENT IN 1977. AS A PERCENTAGE OF PUBLIC EXPENDITURES, THE DEFICIT IN 1975 REPRESENTED 77 PERCENT OF TOTAL EXPENDITURES AND, ACCORDING TO THE MINISTER, WILL BE REDUCED TO 27 PERCENT IN 1977. SOME OF THE STEPS TAKEN TO DIMINISH DEFICIT INCLUDE:

A) INCREASE IN REVENUE: THE FISCAL BURDEN WILL BE INCREASED FROM 16.5 PERCENT OF GDP IN 1976 TO 24.5 PERCENT OF GDP IN 1977. IN REAL TERMS, THE TAX REVENUE OF THE TREASURY WILL INCREASE 57 PERCENT IN RELATION TO 1976 AND 117 PERCENT IN RELATION TO 1975. THIS IMPROVEMENT IS LARGELY ATTRIBUTABLE TO BETTER TAX COLLECTION RATHER THAN THE IMPOSITION OF NEW TAXES. THE MINISTER STRESSED THE GREAT EFFORT TO BE MADE AGAINST TAX EVASION, WHICH HE DESCRIBED AS ANTI-SOCIAL CONDUCT WHICH CANNOT BE TOLERATED. HE ALSO MENTIONED THE THREE-FOLD INCREASE IN TAX COLLECTION AT THE PROVINCIAL LEVEL (PRIMARILY THROUGH SUBSTANTIAL HIKES IN THE REAL ESTATE TAXES), WHICH WILL REDUCE THE TREASURY SUBSIDY TO THE PROVINCES FROM 48 PERCENT OF THE BUDGET DEFICIET IN 1976 TO 29 PERCENT IN 1977. CURRENT REVENUE, WHICH WAS UNDER 20 PERCENT OF TOTAL EXPENDITURES IN THE FIRST QUARTER OF 1976, REACHED 50 PERCENT IN THE FOURTH QUARTER OF 1976 AND WILL BE INCREASED TO 73 PERCENT IN 1977.

B) REGARDING EXPENDITRES, THE MINISTER NOTED THAT THE TREASURY CONTRIBUTION TO STATE ENTERPRISES WILL BE REDUCED BY 30 PERCENT IN REAL TERMS IN RELATION TO 1976. PART OF THE IMPROVEMENT WILL BE ACCCOMPLISHED THROUGH THE LEGAL AND ADMINISTRATIVE REORGANIZATION OF MANY OF THE STATE ENTERPRISES AND ABOVE ALL THOSE IN THE ENERGY SECTOR, IN WHICH THERE WILL BE A REDUCTION OF ABOUT 20 PERCENT IN PERSONNEL. GREAT ECONOMIES WILL ALSO BE EFFECTED  
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IN THE ARAILROADS, WITH A 36 PERCENT REDUCTION IN PASSENGER SERVICE, A 20 PERCENT ELIMINATION OF TRACK, AND A 17 PERCENT DECREASE IN PERSONNEL. THE MINISTER ALSO SAID THAT THE GOA WOULD PROCEED TO RETURN TO THE PRIVATE SECTOR THOSE COMPANIES UNDER STATE CONTROL AS A RESULT OF BANKRUPTCY (SPECIFICALLY MENTIONED SWIFT, FASA, AND CANTABRICA) AND INDICATED THAT THERE WAS A BILL UNDER PREPARATION SPEEDING UP COURT PROCEDURES IN THE SE CASES. MOREVOER, THE GOA PLANS TO SELL STATE PROPERTIES SERVING NO USEFUL PURPOSE, THUS RAISING ADDITONAL REVENUE.

3. PRICES: THE MINISTER REMARKED THAT THE ELIMINATION OF PRICE DISTORTIONS INHERITED FROM THE PREVIOUS REGIME ARE CLEARLY PAINFUL BUT ARE ABSOLUTELY NECESSARY. IT IS FOR THIS REASON THAT THE GOVERNMENT HAS PURSUED A POLICY OF MAINTAINING A REALISTIC EXCHANGE RATE ADJUSTED ALMOST DAILY WITH THE RATE OF INFLATION. THE 120 DAY "TRUCE", THE MINISTER

EMPHASIZED, WAS AN ARTIFICIAL MEASURE DESIGNED TO OVERCOME THE ARTIFICIAL PROBLEM OF "INFLATIONARY EXPECTATIONS". HE INDICATED THAT THE FREEZE WOULD HAVE SOME FLEXIBILITY BUILT INTO IT TO AVOID A SHARP RISE IN PRICES AT THE END OF THE TRUCE PERIOD.

REFERRING TO CERTAIN CRITICISM REGARDING ITS CONTINUED RATE ADJUSTMENTS IN PUBLIC SERVICES AND SHARP PRICE HIKE IN GASOLINE, THE MINISTER SAID THAT SUCH PRICE ADJUSTMENTS HAD BEEN NECESSARY. OTHERWISE, TO AVOID INCREASING THE BUDGET DEFICIT THE PUBLIC WOULD END UP PAYING MORE ANYWAY, THROUGH INCREASED INFLATION.

4. ECONOMIC RECOVERY: ACCORDING TO THE MINISTER, ARGENTINA'S ECONOMIC RECOVERY WILL BE ACCOMPLISHED PRIMARILY THROUGH AN INCREASE IN PUBLIC AND PRIVATE INVESTMENT, CONCURRENTLY WITH AN INCREASE IN PERSONAL UNCLASSIFIED

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INCOME. THE SALARY ADJUSTMENTS IN MARCH, HE CLAIMED, ALLOWED A CERTAIN RECOVERY IN THE LEVEL OF REAL WAGES. PUBLIC INVESTMENT IS EXPECTED TO REACH 13 PERCENT OF GDP IN 1977, ROUGHLY DOUBLE THE ANNUAL RATE DURING THE PAST DECADE. THE 1977 PUBLIC WORKS PROGRAM SHOW AN INCREASE OF 21 PERCENT WITH RESPECT TO 1976, WITH LARGE PROJECTS ALONE TOTALING AT LEAST 3.5 BILLION DOLLARS. INDUSTRIAL PROJECTS TOTALING 1.4 BILLION DOLLARS WERE APPROVED RUING THE PAST YEAR UNDER THE GOVERNMENT'S PROMOTION PROGRAM- ALMOST AS MUCH AS WAS AUTHORIZED IN THE SEVENTEEN PREVIOUS YEARS. IN 1977, THE GOA HOPES TO DO EVEN BETTER, AUTHORIZING AT LEAST 1.5 BILLION DOLLARS WORTH OF NEW PROJECTS UNDER THE NEW INDUSTRIAL PROMOTION LAW. THE ECONOMY WILL ALSO RECEIVE A STRONG BOOST FROM THE AGRICULTURAL SECTOR, WHOSE PRODUCTION WILL BE ROUGHLY 1.7 BILLION DOLLARS GREATER THAN IN 1976.

5. COMMENT: THE MINISTER'S SPEECH CONTAINED NO MAJOR SURPRISES AND, ALTHOUGH SOMEWHAT LONG AND TECHNICAL TO APPEAL TO THE GENERAL PUBLIC, HAS BEEN RECEIVED FAVORABLELY BY BUSINESS SOURCES, WHO LIKED THE STRESS ON CURBING THE BUDGET DEFICIT AND THE HINT THAT THE PRICE TRUCE WOULD BE RELAXED BEFORE THE 120-DAYS PERIOD IS OVER. THE MINISTER, USING HIS USUAL PROFESSORIAL MANNER, APPEARED UNUSALLY SELF-CONFIDENT.  
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